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1972

Preliminary Report
of the
Select Committee
on
ECONOMIC AND CULTURAL
NATIONALISM

TABLED IN THE ~~LEGISLATIVE~~ ASSEMBLY
BY THE CHAIRMAN OF THE COMMITTEE
RUSSELL D. ROWE, M.P.P.

2nd Session, 29th Legislature
21 Elizabeth II

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NATIONALISM



TO: The Honourable Allen E. Reuter,
Speaker of the Legislative Assembly of the Province of Ontario:

Sir:

We, the undersigned members of the Committee appointed by the Legislative Assembly of the Province of Ontario on December 17, 1971, to review the Report of the Interdepartmental Task Force on Foreign Investment and the current status of opinion and information on economic and cultural nationalism in Canada, and to prepare a preliminary report by March 1, 1972, have the honour to submit the attached Preliminary Report.

Russell D. Rowe, M.P.P.
Northumberland,
Chairman

R. Douglas Kennedy, M.P.P.
Peel South

Donald M. Deacon, M.P.P.
York Centre

Nicholas G. Leluk, M.P.P.
Humber

Elie W. Martel, M.P.P.
Sudbury East

Ian Deans, M.P.P.
Wentworth

William G. Newman, M.P.P.
Ontario South

Sidney B. Handleman, M.P.P.
Carleton

Richard S. Smith, M.P.P.
Nipissing

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Victoria-Haliburton

Gordon W. Walker, M.P.P.
London North



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**Members of
the Select Committee on Economic
and Cultural Nationalism**

Russell D. Rowe, M.P.P. (Chairman)	Northumberland
Donald M. Deacon, M.P.P.	York Centre
Ian Deans, M.P.P.	Wentworth
Sidney B. Handleman, M.P.P.	Carleton
R. Glen Hodgson, M.P.P.	Victoria-Haliburton
R. Douglas Kennedy, M.P.P.	Peel South
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Richard S. Smith, M.P.P.	Nipissing
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STAFF

Professor Ivan R. Feltham, Q.C.	Counsel
Professor Stephen G. Triantis	Economic Consultant
C. Kenningham Marchant, Esq.	Research Director
John A. Holtby, Esq.	Clerk of the Committee

Preliminary Report of the Select Committee on Economic and Cultural Nationalism

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Acknowledgements

The Committee would like to express its thanks to its staff.

We have been more than well served by our Counsel, Professor Ivan R. Feltham, Q.C. of Osgoode Hall Law School of York University; our Economic Consultant, Professor Stephen G. Triantis of the Department of Political Economy of the University of Toronto, and by Mr. C. K. Marchant of Osgoode Hall Law School and the Department of Treasury and Economics of Ontario, who served as Research Director.

Mr. John A. Holtby was of invaluable assistance as Clerk of the Committee. Mrs. Margaret Mortimore discharged her secretarial duties with efficiency and dispatch and Mrs. Diane Starnes was of great assistance in the preparation of draft material and the final manuscript.

A. Program of work of the Committee

1. The Committee advertised for briefs and presentations and held public hearings in Toronto, Ottawa and Sudbury during the period from January 12, 1972 to February 18, 1972. The Committee sat for 23 days and heard 33 presentations from organizations and individuals. Mr. C. Peter Honey, Chairman of the Interdepartmental Task Force on Foreign Investment appeared before the Committee on behalf of the Task Force. The Ontario Economic Council, through its chairman, Dr. James Gillies, made a presentation to the Committee and the Committee also had the benefit of consultation with Senator Maurice Lamontagne, P.C., Chairman of the Senate Special Committee on Science Policy. The Committee's sittings included a number of private sessions for discussion among the members of the Committee and its consultants. A full list of hearings and briefs to the Committee is contained in Appendix A.

2. In the short time available to it between its establishment and March 1, 1972, the

date by which it was directed to prepare a preliminary report, the Committee has confined itself to a general survey of the current status of information and opinion. The limited time did not permit study in detail of the many and complex aspects of economic and cultural nationalism in Canada. The Committee wishes to emphasize that its Preliminary Report is not intended to be a comprehensive and systematic analysis of this broad and complex subject.

3. The Committee was fortunate in having referred to it the Report of the Interdepartmental Task Force on Foreign Investment. As a point of departure for the Committee's work the Report provided a survey of the issues and an identification of concerns relating to the high level of foreign investment in Canada. The Task Force Report also indicates the need for further careful study towards development of a "blueprint for action."¹

¹Department of Treasury and Economics, "Report of the Interdepartmental Task Force on Foreign Investment", page 38, Toronto 1971.

B. General Observations and Conclusions

1. It is generally acknowledged that foreign investment has contributed substantially to Canadian economic development. There is, however, widespread concern in Ontario about the high level of foreign control of enterprises in Canada. There is also much concern about the identification and development of a distinctive Canadian culture. The Committee believes that Canadians desire a high degree of self-determination in economic and cultural matters.
2. The Committee has had the benefit of a considerable body of published material in addition to the Report of the Interdepartmental Task Force, as well as the benefit of discussion with a number of experienced persons. From its review, the Committee is satisfied that further study is urgently required. The Committee's specific recommendations are set out below.
3. The several published reports and private studies identify problems which exist in greater or lesser degrees in Canada because of the high level of foreign control of industry. There is no need to repeat in this report the discussion which is available in the Report of the Interdepartmental Task Force and elsewhere. The Committee therefore concentrates in this Preliminary Report on proposals for definitive studies designed to provide a basis for new and specific policy.
4. The Committee is not satisfied that the present state of information and analysis is adequate to justify detailed policy recommendations. Indeed, notwithstanding the high level of concern during the last decade, there is a remarkable lack of information about, and analysis of, the effects of foreign investment in Canada. Perhaps the federal study, yet to be released, will fill the void. In any event, Ontario should be fully prepared to evaluate any federal policy and, for this purpose, should develop its own studies with particular reference to Ontario needs.
5. An important fact is that there is a high degree of integration and interdependence among nations resulting from trade as well as from the operation of enterprises which span several countries. No nation can be isolated from the impact of economic policies and economic conditions in other nations. In a world of interdependence and integration, the question for any nation is how to maintain a satisfactory share of the benefits of trade and capital investment. The question might be framed in terms of maximizing the benefits and minimizing the costs to its economy and independence. Certainly, at this stage of development of the world economy, a nation is bound to look after its own interests — there is as yet

no satisfactory mechanism for allocation of benefits on a multi-national basis.

6. The Committee is of the view that we should emphasize policies designed to maximize benefits to Ontario and Canada when dealing with foreign investors. It is in the nature of all enterprises that their managers will attempt to achieve the greatest benefit for their firms. It does not necessarily follow that the interests of the people or the area in which the enterprise is located will be equally well served. Ontario and Canada should devise techniques to obtain the best advantage for their people.

7. There is a dilemma inherent in any national interface with international enterprises. It is generally for the benefit of all who are interested in a business enterprise (employees, shareholders, consumers of the products of the enterprise and suppliers of goods and services to the enterprise) that the enterprise operate most efficiently. This usually implies a high degree of centralized coordination of the operations of the enterprise. The goal of centralized efficiency may conflict with the desire of host countries to gain a greater degree of self-sufficiency and self-determination.

The central issue is — where does the greater benefit lie? Are the benefits which may flow from multinational organizations such as managerial efficiency, technological development, and marketing capacity, in fact so great as to outweigh the possible benefits of local participation in management and share ownership? Is there a compromise position which satisfies national aspirations without seriously impairing the efficiency of multinational business organization? The Committee believes that there are no simple answers applicable to all situations. Specific solutions are likely to vary among particular industries and firms.

8. Many of the standards of behaviour suggested for foreign-controlled enterprises are also appropriate for enterprises owned and controlled in Canada. The Interdepartmental Task Force Report recommends the following eleven standards to which foreign-controlled firms should conform:²

- (a) Give advance notice of planned shut-downs of plants and lay-offs of employees.
- (b) Disclose and publish financial information.

²“Report of the Interdepartmental Task Force on Foreign Investment”, page 44.

- (c) Offer minority ownership of Canadian subsidiaries to Canadians.
- (d) Assure the required participation of Canadians in management and on the board of directors.
- (e) Process natural resources in Canada.
- (f) Favour Canadian firms for the purchase of materials, components, capital equipment, and services.
- (g) Develop exports to overseas markets.
- (h) Assure adequate levels of research and development work in Canada.
- (i) Retain an adequate level of profits for re-investment in Canada.
- (j) Assure, through proper intra-corporate pricing and cost-sharing, an adequate level of taxable profits in the Canadian subsidiaries.
- (k) Comply with Canadian law even though it conflicts with the law of the parent company's home country.

The Committee believes that policies relating to the issues implicit in any standards of performance for foreign-controlled firms should be developed within the framework of a basic industrial policy. Only within such a

framework can performance be adequately assessed and standards applied which emphasize any special requirements to be imposed on foreign-controlled firms.

9. Foreign ownership and control questions should not be isolated. They are part of the larger questions of industrial policy. This was emphasized before the Committee by many experienced commentators and, particularly, in the brief of the Ontario Economic Council. It is clear to the Committee that there is a fundamental need for an industrial policy which deals in detail with weaknesses and strengths, actual or potential, of industry in Ontario. The Committee's recommendations on this matter appear below.

10. The development of a comprehensive national policy for all industry, including foreign-controlled industry, requires the cooperation of the federal and provincial governments. It is evident that the formulation and administration of policies on foreign investment should not be the exclusive responsibility of the federal government. The provinces have distinctive responsibilities for their own development, having regard to local and regional needs and capabilities. Ontario policy must be part of national policy, but Ontario should not wait for federal

action. The federal government has central responsibility to develop and implement national policy, but the provinces must have a concurrent and direct role in both formulation and administration of such policies.

11. The Committee's terms of reference include a review of the current status of information and opinion regarding cultural nationalism. In the short time available to it, the Committee has not had an opportunity to gather evidence on this subject, although some of those who appeared before the Committee did

make representations with respect to cultural matters.

12. The Committee is of the opinion that the people of Ontario and Canada have a strong desire for cultural identity, and cultural development. An important aspect of this matter is under examination by the Royal Commission on Book Publishing. The Committee feels that a fuller examination of cultural goals, identity and development is required. The Committee's recommendations appear below.

C. Recommendations

1. INDUSTRIAL POLICY

1.1 In accordance with the foregoing general conclusions, the Committee recommends that the Ontario government increase efforts directed to the development of an industrial policy for Ontario. The policy should focus on the achievement of such goals as the full employment of Canadians and the development of Canadian skills to their full potential. The policy should also focus on the development of efficient, internationally competitive industry. Implementation of such an industrial policy will require a careful mix of policy tools, including tax and commercial policies, development of capital markets, promotion of industrial rationalization, business assistance programs, foreign ownership and competition policies, and government enterprise where appropriate.

1.2 The Committee is impressed by the recommendation of the Senate Special Committee on Science Policy that there be created industry task forces composed of industry and labour representatives in each industry, working with the assistance of a chairman and a small secretariat appointed by the Minister of Industry, Trade and Commerce.³ Ontario

should participate and cooperate in the creation of such task forces. However, in the absence of adequate federal initiative, Ontario should be prepared to undertake such a program itself with particular reference to Ontario needs. In any event, the Ontario government should be adequately equipped to participate fully in any federal development of industrial policy.

2. INFORMATION

2.1 As noted above, better information and analysis will be required for the formulation of policy regarding foreign investment. The Committee therefore recommends that there be developed a systematic information-gathering program.

2.2 The Committee further recommends that information returns be required of all business enterprises under Ontario jurisdiction of a size or nature to be significant in relation to the development of industrial and foreign investment policies. A careful study should be made to determine

- (a) the kinds of information which are necessary to evaluate the

³"A Science Policy for Canada, Report of the Senate Special Committee on Science Policy, Vol. 2, Targets and Strategies for the 70's", page 602, Information Canada, Ottawa, 1972.

performance of all firms against public-interest criteria, and

(b) how much information collected by governments should be made public.

Such returns might include not only the usual financial data but also information about relations with foreign affiliates, the performance of the subsidiary as compared with affiliates in exports, research and development and other matters, and about management opportunities for Canadians, as well as other facts pertinent to the evaluation of the performance of the subsidiary in Canada. In this connection, the Committee feels that both foreign-owned and domestically-owned firms should be required to supply to government well in advance of any shutdown or relocation the pertinent information on which their decision was based.

2.3 The Committee further recommends that such information-gathering systems be co-ordinated so far as possible with those under federal jurisdiction and that there be strong representation to the federal authorities that they collect and publish all information necessary to evaluate the performance in Canada of foreign-controlled enterprises within federal jurisdiction.

3. ECONOMIC NATIONALISM

3.1 Capital markets

3.1.1 Ontario is a major centre of the capital market in Canada. The Committee proposes to study the capital market and the availability of capital. The study will include:

- (a) Adequacy of capital for development in Canada.
- (b) Adequacy of the mechanisms by which capital is made available to promising ventures.
- (c) Desirability of regulating loans to foreign-controlled firms by Canadian lenders.
- (d) Desirability of restricting investment abroad by Canadian institutional investors such as pension funds, mutual funds and insurance companies.
- (e) Desirability of requiring foreign-owned corporations to make stock available to Canadian investors.
- (f) The adequacy of performance of the financial industry. (The Committee notes that the Ontario Securities Commission is expected to report in the near future on foreign ownership of securities dealers and their need for capital.)

3.1.2 As an immediate measure, the Committee recommends that the Ontario government establish and keep current an information service to list available sources of investment capital for small and medium sized companies, and those companies and entrepreneurs seeking capital for start-up or expansion.

3.2 Incentive programs

3.2.1 The view has been expressed to the Committee that incentive programs should be available only to firms of which the majority ownership or control is in Canadian hands. The Committee does not have conclusive evidence about the differences between foreign-owned and Canadian-owned corporations in terms of benefits to individuals and the community from employment and demand for supplies and services. The Committee does however recommend that government incentives should discriminate in favour of companies which have a significant level of Canadian equity participation.

3.2.2 The Committee further recommends a fresh examination of incentive programs for industry in Ontario, including consideration of the desirability of government participation in ownership in return for financial assistance.

3.3 Canadian participation on boards of directors

3.3.1 There have been many suggestions that companies be required to have a number of Canadian directors. This is put on the basis that Canadians will be generally more sensitive to Canadian interests than are persons not at least resident in Canada. Also, it is argued that the Canadian directors should be drawn from outside the firm and not be employees of the subsidiary or of the parent. Some recommend that the boards be composed of a majority of Canadians not employees of the company.

3.3.2 At this time the Committee recommends that all companies have not less than 20% of their boards of directors Canadian citizens resident in Canada. The Committee plans further study of the question with a view to determining the probable effects of requiring a majority of resident Canadian directors and whether such a requirement should be implemented for corporations under Ontario jurisdiction.

3.4 Management education and opportunities in Canada

3.4.1 It has been represented to the Committee that the level of foreign

investment has an adverse effect on the quality of Canadian management and on management opportunities for Canadians. The Committee proposes to examine the impact of foreign investment in this regard, and the quality of and opportunities for management education in Canada in the context of industrial development policy and the quality of employment opportunities.

3.5 Stock participation or control

3.5.1 It has been suggested that subsidiaries in Canada of foreign corporations be required to make a portion (suggested percentages vary widely) of its voting control available to Canadians. The Committee proposes to study the matter to determine the extent to which such voting control would likely offer a significant advantage to Canada.

3.6 Acquisitions and mergers

3.6.1 It is noted that acquisitions of Canadian firms by foreign interests may involve no immediate benefit to the Canadian economy. However, in particular cases, the new management

may be better and the acquirer may bring new technology and further access to export markets. The Committee believes that there is a need for discretionary control to maximize the public benefits and prevent the sale of Canadian firms where no public benefit is seen, having due regard to the private interests involved.

3.6.2 The Committee recommends that Ontario equip itself to take an effective position with respect to any federal agency which may concern itself with foreign acquisitions of Canadian firms. The Committee further recommends that Ontario set up immediately a register of foreign acquisitions of corporations within its jurisdiction. The Committee proposes to study the desirability of having Ontario control foreign acquisitions of corporations within its jurisdiction.

3.7 Performance and behaviour of foreign-controlled firms.

3.7.1 The Committee recommended above the systematic collection of data relating to the behaviour and performance of foreign-owned firms in Canada. It also noted the contribution of a number of published studies concerning foreign investment in Canada.

3.7.2 The Committee is of the view that an essential element in the resolution of the complex issues of foreign investment is a more definitive analysis of the behaviour, performance and impact of foreign-controlled and multinational firms in Canada. The expected federal study may cover much or all of this ground. In any event the Committee proposes to study the issues in the light of Ontario's interests and notes the following tentative list of matters to be considered:

- (a) Employment effects, including job creation, layoffs, employment practices, and production and employment allocation among countries.
- (b) Research and development work in Canada, and provision of technology to the Canadian economy.
- (c) Intra-corporate pricing and cost sharing, including tax avoidance and impact on supply prices.
- (d) Impact on the balance of payments, export performance, export of raw or semi-processed materials and components, dividends, royalties and license fees paid abroad, retention of profits for investment in Canada, and importation of capital.

- (e) Procurement of goods and services in Canada.
- (f) Compliance with Canadian law and policy, even where there is a conflict with home-country law and policy.
- (g) Contribution to community life and welfare.

3.8 Natural resources

3.8.1 There is a large element of foreign ownership and control in the natural resource industries. The Committee had insufficient information upon which to base specific recommendations. The Committee notes, however, that there is widespread concern that the full potential for processing and related industries has not been exploited. There is also concern about the power of large resource companies to allocate development and production and determine prices to the detriment of Canada's interests.*

3.8.2 The Committee notes that the Prime Minister of Ontario recently announced that the government is preparing a White Paper on resources policy.

*Mr. Deans and Mr. Martel feel the following should be added: "Many nations will not permit natural resource development by foreign enterprise. Considering the unique and important role that natural resources will play in Ontario's future, the future development of resources in Ontario should only be taken with direct government participation."

4. LAND FOR RECREATION

4.1 The availability of adequate land for recreation will be an increasingly important aspect of the general quality of life in Ontario, particularly in areas of relatively dense population. Although the Committee does not see this question as being directly related to questions arising from the foreign control of industry in Canada, the Committee does believe that it is sufficiently important and urgent to justify immediate attention.

4.2 The Committee recommends an immediate study of the need for recreational land and its availability to Canadians. The study should include the effect of the demand by foreign residents on the price of land and should explore the desirability of restrictions on the sale of privately owned land as well as Crown land.

5. CULTURAL NATIONALISM

5.1 On the basis of the few representations it has received, the Committee feels there are a number of cultural matters about which there is sufficient concern to justify further examination.

5.2 The Committee is aware that many Canadians are concerned about the quantity and quality of Canadian educational materials available for use in Ontario schools and universities, particularly in subjects with a cultural aspect, such as history, the social sciences, and the liberal and fine arts. The Committee understands that the Departments of Education and Colleges and Universities as well as private research organizations are presently studying this matter. The Committee recommends that such efforts be intensified with a view to the early development of an appropriate range and quality of educational materials for use in Ontario schools and universities.

5.3 The Committee is also aware that there is concern about the number of foreign nationals recruited by Ontario university faculties. The Committee feels that Ontario's colleges and universities should continue to stress intellectual and teaching excellence in faculty recruitment. The Committee is also aware of the serious implications for university autonomy should detailed recruitment guidelines be imposed upon the universities. The Committee nevertheless feels that an examination and airing of the issues relating to university recruitment of foreign nationals would be in

the public interest and proposes to carry out this task.

5.4 Public concern about foreign participation in what may be described as the cultural industries has been brought to the Committee's attention. The Royal Commission on Book Publishing is currently examining that important cultural area. The Canadian Radio and Television Commission, the Ontario Educational Communications Authority, and related agencies are active

in developing policies for those communications media. The Senate of Canada reported on "The Mass Media" in 1970.

5.5 The Committee proposes a policy-oriented examination of nationalism in relation to the cultural industries, and from an Ontario perspective. The study will include such related issues as foreign ownership of the advertising industry in Canada.

Appendix "A"

COMMITTEE HEARINGS

Toronto	January 12, 13, 19	C. Peter Honey, Esq. Chairman of the Interdepartmental Task Force on Foreign Investment.
Toronto	January 17	Dr. A. E. Safarian, Dean, School of Graduate Studies, University of Toronto.
Toronto	January 18	Geoffrey R. Conway, Esq.
Toronto	January 24	Robert W. Bonner, Esq., Q.C. Vice Chairman, MacMillan Bloedel Limited
Toronto	January 25	Professor Melville Watkins, Department of Political Economy, University of Toronto.
Toronto	January 26	Dr. Robert M. MacIntosh, Deputy Chief General Manager, The Bank of Nova Scotia.
Toronto	January 27	The Executive of the Committee for an Independent Canada: The Honourable Walter L. Gordon, P.C., Edwin A. Goodman, Esq., Q.C., Professor Abraham Rotstein, J.L. Biddell, Esq., Peter C. Newman, Esq.
Toronto	February 2	Professor I.A. Litvak, Department of Economics, Carleton University.
Ottawa	February 9	Dr. Kari Levitt, Department of Economics, McGill University. The Honourable Eric Kierans, P.C., M.P. for Duvernay.
Ottawa	February 10	William Dodge, Esq., Secretary-Treasurer, Canadian Labour Congress.

Appendix "A" (contd.)

Sudbury	February 15	His Worship Mayor Michael Solski, Town of Coniston. Donald Lyons, Esq., Business Agent, Rock and Tunnel Workers, Local 183. M.C. "Bud" Germa, Esq., M.P.P. for Sudbury. M. McGuire, Esq., President Local 6500, United Steel Workers of America. Gilbert Gilchrist, Esq., United Steelworkers of America. James Tester, Esq., President, Mine, Mill and Smelter Workers. Floyd Laughren, Esq., M.P.P. for Nickel Belt. John Rodriguez, Esq., Alderman Town of Coniston. Murray Davidson, Esq., Deputy Mayor, City of Sudbury. John McCready, Esq., Vice President and General Manager, Ontario Division, International Nickel Company of Canada Limited. Shane MacKay, Esq., Assistant Vice President, International Nickel Company of Canada Limited.
Toronto	February 16	Percy W. Bishop, Esq. Kenneth Rowe, Esq., Industrial Commissioner, Town of Mississauga.
Toronto	February 17	Professor John Crispo, Acting Director, School of Business, University of Toronto. Dr. James Gillies, Chairman, Ontario Economic Council.
Toronto	February 18	Douglas H. MacAllan, Esq., Executive Assistant to the Chairman, Imperial Oil Limited. J. Flavelle Barrett, Esq., Q.C., General Counsel, Imperial Oil Limited.
Ottawa	February 8	The Committee met before the Special Senate Committee on Science Policy in response to the invitation of the Chairman of the Committee, Senator Maurice Lamontagne, P.C.

Appendix "B"

WRITTEN BRIEFS FILED WITH THE COMMITTEE

Miss Ellen Anderson.

Harvey Brennan, Esq.

H.B. Caldwell, Esq.

Edward Carrigan, Esq.

Sushil Kumar Jain, Esq.

D. C. MacCharles, Esq.

E. D. K. Martin, Esq.

J. G. McClelland, Esq.

Ontario Federation of Labour.

Professor John C. Pattison,
Department of Economics,
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Professor George Sinclair,
Department of Electrical Engineering,
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United Electrical, Radio and Machine
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